



## Is Cameco Corp. (TSX:CCO) an Attractive Contrarian Stock Pick Today?

### Description

Contrarian investors are constantly searching for [beaten-up stocks](#) that could be on the verge of a recovery.

Let's take a look at **Cameco Corp.** ([TSX:CCO](#))([NYSE:CCJ](#)) to see if it deserves to be on your buy list right now.

### Japan disaster

In early 2011, Cameco traded for \$40 per share and uranium prices hovered near US\$70 per pound. Then the tsunami hit the coast of Japan, and everything changed.

The country shut down its entire fleet of nuclear reactors, and governments around the world took a step back to evaluate their nuclear energy programs. Uranium prices went into a free fall, and seven years later, they still haven't recovered. The share prices of the industry's producers also took a hit.

How bad has it been?

Uranium spot prices are about US\$22 per pound, and Cameco currently trades for \$13.70 per share.

Japan is working hard to get its reactors back online, but technical challenges and legal delays have stalled the process. In fact, only six of the country's 42 operable nuclear energy facilities have resumed commercial service.

### CRA dispute

Cameco is caught up in a battle with the Canada Revenue Agency (CRA) over taxes owed on earnings generated through a foreign subsidiary. The trial for the first round of contested tax years wrapped up in September 2017, and Cameco says a decision is expected within the next 12 months.

If Cameco loses the case, it could be required to pay more than \$2 billion in taxes and penalties.

## Results

Cameco has done a good job of adjusting production levels and trimming costs to ride out the downturn, but the prolonged slump is having a negative impact on the company. Cameco slashed its [dividend](#) last fall and has suspended operations at a number of facilities, including McArthur River and Key Lake.

The company managed to report adjusted net earnings of \$23 million in Q1 2018, but the overall outlook for the rest of 2018 remains cautious. Cameco maintained its 2018 guidance when it reported the Q1 results, with cash flow expected to be similar to last year.

## Opportunity

Uranium bulls say a major recovery could be on the way, and they might have a point.

Secondary supplies are currently filling demand gaps in the uranium market, but that situation can't last forever. Producers have cut back output and shelved development projects to the point where the uranium market could find itself in a shortage position in the coming years.

Around the globe, more than 50 new reactors are under construction, and Japan is slowly getting its facilities back in service. One report suggests annual uranium demand could rise 50% by 2030.

## Should you buy?

The long-term outlook might be positive, but I wouldn't hit the buy button just yet. Uranium prices are expected to remain under pressure for the near term, and there is a risk an unfavourable decision in the CRA case could trigger a sell-off in the stock.

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